



## **BHTA Tourism Tax Reform Task Force and Industry Partners Group**

Bahamas Hotel and Tourism Association  
Bahamas Hotel and Restaurant Employers Association  
Nassau Paradise Island Promotion Board  
Grand Bahama Island Tourism Board  
Bahamas Out Islands Promotion Board  
Bahamas Diving Association  
Marina Operators of The Bahamas  
Bahamas Sightseeing & Tour Operators Association  
Sandal's Resorts  
Baha Mar Limited  
Atlantis Paradise Island

# **Review of Draft VAT Bill and Regulations Key Findings, Concerns and Recommendations**

August 11, 2014



BHTA Tourism Tax Reform Task Force and Industry Partners Group  
Review of Draft VAT Bill and Regulations: Key Findings, Concerns and Recommendations

## *The Good News....*

- VAT Rate Reduced to 7.5%
- 10% Room Tax Replaced by 7.5% VAT
- Implementation Delayed to January 1, 2015

*BHTA Welcomes and Appreciates This*



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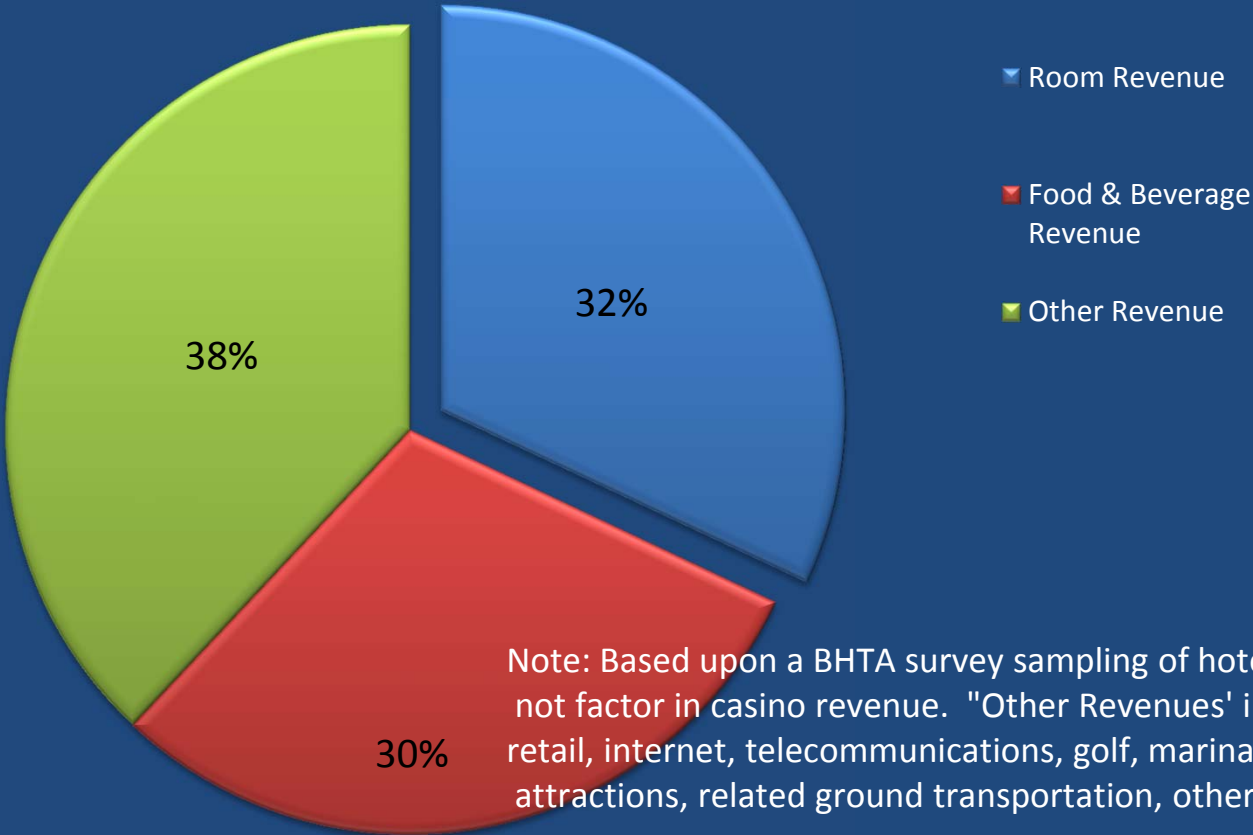
## *VAT at 7.5% Impacts Price Competitiveness ....*

- Hotels Will See a 125% to 150% Increase in Tax Obligation
- **68% of Hotel Revenue Will be Taxed on Activities Previously Not Taxed or Subject to Lower Tax**
- All Other Tourism-Related Services – marinas, independent restaurants, attractions, excursions, etc. subject to 7.5%

*The Price to the Traveler Will Go Up  
Key Industry Issues Identified in Draft Bill/Regs Increase  
the Price Even More Than Earlier Analysis Projected*

# Critical Paradigm Shift with VAT Equation as Tax Footprint Widens...Results in 125-150% Tax Increase

## Bahamas Hotel Revenue Sources



# VAT LIABILITY ANALYSIS

## Current Tax Base @ 10%

Room Rate	Hotel Tax
\$200.00	\$20.00

## Proposed Tax Base @ 7.5%

Room, Food & Beverage, and Amenities	VAT
\$625.00	\$46.88

<i>Tax Base Increase</i>	<i>Tax Liability Increase</i>
<b>\$425.00</b>	<b>\$26.88</b>
<b>212.5%</b>	<b>134.4%</b>

**PROPOSED TAX BASE INCREASE OF 212.5%**

**PROPOSED TAX LIABILITY INCREASE OF 134.4%**

**\*\* (INCREASES BASED ON FIGURES IN EXAMPLE ABOVE)**



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## *Key Issues and Areas of Concern...*

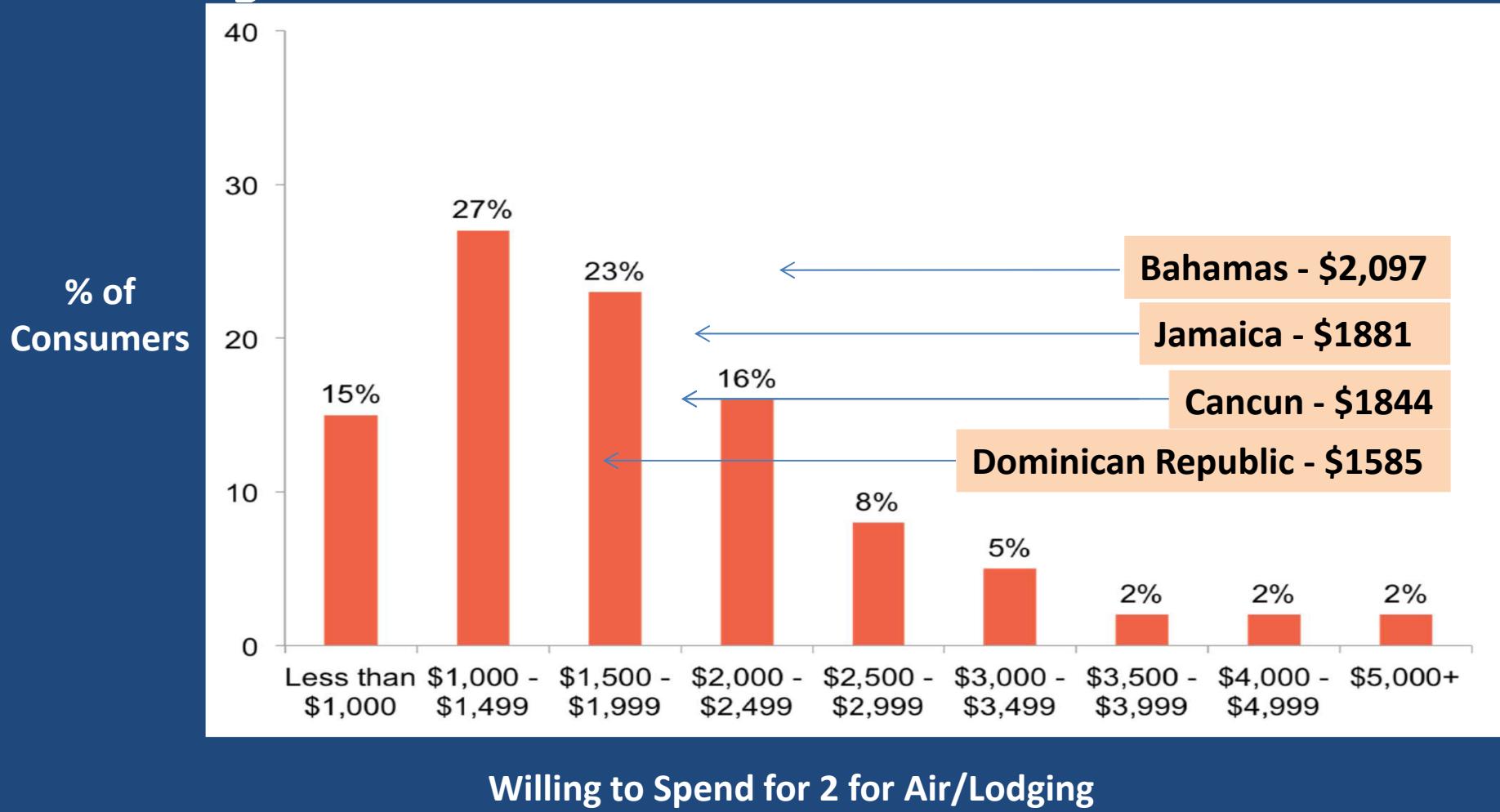
### **FACT:**

**Bahamas Presently Draws on 35% of Potential Travel Market Share to Caribbean Based on How Much Consumers Are Willing to Spend**

- *As Price Rises, Market Share Potential Drops*
- *\$500 Increase in Hotel and Transportation Package Could Reduce Market Share Draw to 19%*

# Competitors Have Clear Price Advantage on Vacation Transportation and Hotel Package Cost....

## *Reducing Potential Market Share Bahamas Can Draw On*



Source: MMBY Global, 2013



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*Cause for Added Tourism Industry Concern...*

- *Ernst & Young Research Showed Industry Prices with 7.5% VAT Needing to Increase by at least 4.2%*
- *While Difficult, Knowing the Nation's Fiscal Dilemma, This is Acceptable to Industry*

*Research at that time did not factor added impact of provisions in the present Draft Bill and Regulations from the following:*

1. VAT on Gross Overseas Sales
2. VAT on Mandatory Gratuities
3. Treatment of Prebooked Groups and Businesses
4. VAT on Promotion Board Levies
5. VAT on Overseas Advertising, Other Overseas Expenses
6. VAT Assessed on Self-Supplies
7. Very Limited Tariff Reductions





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## *Key Issues and Areas of Concern...*

### **1. VAT on Gross Overseas Sales**

#### **Industry Concerns:**

- Unprecedented practice in the travel industry
- Applies VAT to full overseas selling price inclusive of airfare and commissions earned by overseas travel agents, wholesalers, etc.
- Difficult to impossible to track and account

#### **Consequences:**

- Discourages overseas sales with most wholesalers not willing to share markup information
- Sales will be diverted to other jurisdictions
- Would result in huge price increase for travel to Bahamas

#### **Industry Position:**

VAT should only be applied to the revenue received by hotels and other Bahamas domiciled tourism-related businesses as this is their legal entitlement to revenues.



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## *Key Issues and Areas of Concern...*

## **2. VAT on Mandatory Gratuities**

### **Industry Concern:**

Gratuities supplement employee's earnings. With all-inclusive pricing, factored on top of 15% gratuity, creates confusion and indefensible position to customers. Most gratuities are mandatory or common practice, making it difficult to eliminate.

### **Potential Consequences:**

- No off-set to VAT and consequently it increases cost to customers
- Creates adverse public relations implications for The Bahamas with visitors
- Likely to result in a reduction in gratuities paid to employees
- Decreased earnings of employees

**Industry Position:** VAT should not be assessed on mandatory gratuities.



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## *Key Issues and Areas of Concern...*

### **3. Treatment of Prebooked Groups and Businesses**

#### **Industry Concerns:**

- Most groups booked well in advance and rates for rooms, food and beverages, amenities, services, excursions and attractions are contractually locked.
- Added costs and double taxation likely unless a transition arrangement is reached with Government.
- Modifying existing contracts can result in lost business, as some groups opt out in favor of lower cost alternatives.

#### **Recommendation:**

Implement approach similar to that undertaken by industry, Ministries of Tourism and Finance in 2010 when room tax increased to 10%. This required businesses submit to Government listings of groups contracted at the old rate, thus permitting payment to Government at the rate prior to increase. Businesses agreed to provide full disclosure to Government on contractual arrangements upon request. Make applicable for any group booked prior to January 1, 2015.



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## *Key Issues and Areas of Concern...*

### **4. VAT on Promotion Board Levies**

#### **Industry Concern:**

VAT should not be assessed on Promotion Board levies.

#### **Justification/Consequences:**

- Room Levies –  
Total - \$31.5 Million x 7.5% = \$2.4 Million VAT Obligation
- Raises the cost of the hotel room to guests.
- If absorbed by industry, it reduces promotional dollars used to promote the destination.
- Funds do not belong to hotels and are collected by the hotel in trust for the Promotion Board.

#### **Industry Position:**

Levies should not be subject to VAT.



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*Key Issues and Areas of Concern...*

## 5. VAT on Overseas Advertising, Other Overseas Expenses

### Industry Concerns:

- Added and unnecessary administrative burden increasing costs both to the Bahamian business and the overseas vendor.
- Hotels and tourism-related businesses depend on overseas advertising to generate over 95% of their business.

### Recommendation:

- Given our understanding that this is just an accounting function with inputs on overseas advertising and non-VAT expenses being offset, it should not be a requirement.



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*Key Issues and Areas of Concern...*

## 6. VAT on Self-Supply

### Industry Concerns:

- MOF Tourism Guide Notes indicate that the supply internally of goods and services are subject to VAT.
- This appears to obligate the hotel to charge itself VAT on all employee meals, drinks, complimentary services (FAM Tours), in-house entertaining, employees staying in house over hurricanes etc. a straight 7.5% increase on all these expense lines.

### Recommendation:

- VAT should not be applicable on self-supply.



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## *Key Issues and Areas of Concern...*

### **7. Tariff Reductions**

#### **Industry Concerns:**

- Limited number of recommended tariff reductions are outlined in a companion document to the draft Bill .

#### **Recommendation:**

Consideration be Given for Tariff Reduction to 5% for:

- Chicken
- Wine
- Linens



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# *Thank You*

## *Discussion Items:*

1. VAT on Gross Overseas Sales
2. VAT on Mandatory Gratuities
3. Treatment of Prebooked Groups and Businesses
4. VAT on Promotion Board Levies
5. VAT on Overseas Advertising, Other Overseas Expenses
6. VAT on Self-Supply
7. Very Limited Tariff Reductions
8. Readiness and Implementation Schedule